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1966 ANNUAL REPORT

YEAR ENDED FEBRUARY 28

Canadian Cannery Limited



CANADIAN CANNERS LIMITED

DIRECTORS

WM. HERBERT CARR - - - - - San Francisco, California
 J. E. COUNTRYMAN - - - - - San Francisco, California
 L. M. CRANDALL - - - - - Pembroke, Ontario
 W. I. DRYNAN - - - - - Hamilton, Ontario
 A. W. EAMES, JR. - - - - - San Francisco, California
 G. ARNOLD HART - - - - - Montreal, Quebec
 L. H. JOHNSTON - - - - - Hamilton, Ontario
 R. M. MAPP - - - - - Hamilton, Ontario
 A. L. NELSON - - - - - Hamilton, Ontario
 LEONARD A. PHILIP - - - - - Toronto, Ontario
 W. S. SEWELL, Q.C. - - - - - Toronto, Ontario
 R. B. YERBY, JR. - - - - - San Francisco, California

OFFICERS

J. E. COUNTRYMAN - - - - - Chairman of the Board
 W. I. DRYNAN - - - - - Vice-Chairman of the Board
 L. H. JOHNSTON - - - - - President and Chief Executive Officer
 R. M. MAPP - - - - - Vice-President Marketing
 A. L. NELSON - - - - - Vice-President Production
 T. V. MCGINN - - - - - Secretary-Treasurer
 R. FOX - - - - - Contoller
 A. L. CROCE - - - - - Assistant Secretary
 T. H. DAVIES - - - - - Assistant Secretary

HEAD OFFICE

44 Hughson Street South, Hamilton, Ontario

SUBSIDIARY COMPANIES

AYLMER FOODS WAREHOUSING LIMITED
 BOESE FOODS LIMITED
 CANNERS MACHINERY LIMITED
 WAGSTAFFE LIMITED
 WALMER TRANSPORT COMPANY LIMITED

REGISTRAR AND TRANSFER AGENTS

Royal Trust Company, Toronto and Montreal

TRUSTEE FOR DEBENTURE HOLDERS

Canada Permanent Trust Company

AUDITORS

Price Waterhouse & Co.

ANNUAL MEETING

June 17, 1966, 2:15 p.m. (E.D.S.T.), Head Office

FINANCIAL HIGHLIGHTS

	1966	1965	1964	1963	1962
Sales	\$50,568	\$47,954	\$43,243	\$40,244	\$39,054
Earnings	2,156	2,112	1,781	614	420
Earnings Per Share *(1)	1.54	1.50	1.27	.44	.30
Dividends Per Share *(2)75	.75	.75	.75	.75
Working Capital	16,500	15,887	15,748	14,626	14,932
Inventories	22,107	19,755	17,896	18,006	21,043
Capital Expenditures	2,097	1,333	1,187	1,214	1,251
Earnings Retained and Used in Business	23,101	21,296	19,536	18,106	17,843
Shareholders' Equity	29,397	27,593	25,832	24,402	24,139
Number of Shareholders*	3,488	3,649	3,750	3,873	3,971

Figures in thousands except where designated by *

(1) Class A and Class B Common Shares combined.

(2) Class A only. See note 2 to "Notes to Financial Statements".



LAWRENCE H. JOHNSTON
President and Chief Executive Officer

Canadian Canners Limited earnings for the year ended February 28, 1966 were \$2,155,886 or \$1.54 per class A and B common share compared with \$2,111,640 or \$1.50 per class A and B common share for the year ended February 28, 1965.

Sales of \$50,568,113 were \$2,613,917 or 5.5% greater than the sales for the previous year. Our sales volume has shown substantial growth in each of the last three fiscal years and the outlook for continuation of this growth for our AYLMER and DEL MONTE brand products is promising.

Our year end inventories are \$2,352,583 higher than a year ago and reflect both higher unit values and increased quantities of certain products to meet expanding demand for these products. Our inventories of manufactured goods are in favourable balance for marketing requirements until 1966 pack dates except for certain fruit items and tomatoes, the 1965 packs of which were curtailed by adverse weather conditions and shortage of labour.

Capital expenditures during the year, of \$2,097,287, were made principally at our operating plants for the improvement of existing facilities, expansion of plant capacities and replacement of worn-out equipment.

The depreciation charge for the current year of \$1,093,431 has been computed on the straight

DIRECTORS' REPORT TO SHAREHOLDERS

line basis which is lower than the maximum capital cost allowance used in determining the income taxes for the year. This is a continuation of the practice followed in prior years and reflects a reduction in income taxes otherwise payable of \$360,000 for the current year as compared to \$519,000 for the prior year.

Dividends

Dividends of 75¢ per share were paid on the class A shares during the year ended February 28, 1966. No dividends have been paid on the class B shares, substantially all of which are owned by California Packing Corporation, since date of issue October 1, 1956. The class B shares are entitled to dividends accumulating from date of issue at the rate of 75¢ per share per annum and aggregate unpaid dividends on the class B shares amounted to \$6,495,000 at January 1, 1966.

Marketing

Increased sales volume has resulted from a well planned and executed marketing program. Advertising and merchandising activities have been sustained on a national basis and our AYLMER, DEL MONTE and HENLEY brand promotions have been well accepted by the distributors.

We are expanding our DIET DE LUXE low calorie product line which is being well received by consumers. The low calorie product line now includes fruits, fruit drinks, pickles and jam spreads and has excellent national distribution.

Our company brands are reasonably well established in the export markets of the United Kingdom, West Germany and the West Indies. However, competition from countries with lower production costs restricts our expansion in these markets and the extension to other export markets.

Production

We are continuing our program for the control and reduction of manufacturing costs. Some cost reductions have been realized in the past year by further mechanization of our production and harvesting facilities but these have been more than offset by increases in raw produce and labour costs. Produce and labour costs established to date for the 1966 packing season are increased over 1965 and finished product costs are expected to be higher in 1966.

We expect a continuation of the short supply of labour to work in the fruit and tomato harvesting operations and in our processing plants during the 1966 season. An extensive combined effort by growers, processors and government agencies will be necessary to overcome this labour shortage. We are pleased to report that these groups are already working on the problem and our company is exerting every effort to obtain an adequate labour supply for the 1966 packing season.

Our Scientific Research Department continues to develop and improve our product formulations with particular emphasis during the past year on DIET DE LUXE products. The operation of this Department also includes research on container specifications, food processing technology and waste water disposal methods.

Subsidiaries

Our subsidiaries have again this year made substantial contributions: Wagstaffe Limited in the production and distribution of AYLMEY jams, jellies, pie fillers and peel products; Boese Foods Limited in the production and distribution of HENLEY brand products; Walmer Transport Company Limited in trucking operations; Canners Machinery Limited in equipment manufacturing; and Aylmer Foods Warehousing Limited in the storage and distribution of our products.

Industry Supply

Industry packs of vegetable products during the past year have been at a high level with satis-

factory growing and harvesting conditions in most areas. However, with increased consumer demand the industry supplies of canned vegetable products at this date are estimated to be in a reasonably balanced position except that tomato juice supplies appear excessive.

Industry packs of tree fruit products, particularly peaches, were substantially reduced in 1965 due to a short crop condition in Ontario and a complete crop failure in British Columbia because of a winter freeze. This situation has further opened up the Canadian market to certain imported fruit products which are being offered in the Canadian market at prices below Canadian packed products. These products are entering the country at a low rate of duty and apparently are also being supported by promotion subsidies from the exporting country. The margin on Canadian canned fruit has been at a very low and unsatisfactory level in recent years. The future of the Canadian fruit processing industry is dependent on growers and processors combining their efforts in meeting this situation.

Directors and Executives

Your directors report the retirement of Mr. R. G. Lucks and Mr. H. G. Stapells, Q.C. as directors of our company on June 18, 1965. Mr. Lucks had been a director since 1957 and Mr. Stapells since 1949. The vacancies on the Board were filled by the election on June 18, 1965 of Mr. A. W. Eames, Jr. and Mr. W. S. Sewell, Q.C.

Mr. William I. Drynan retired on October 1, 1965 as President of our company. Mr. Drynan who had been President since 1953 was elected to the new office of Vice-Chairman of the Board. Mr. L. H. Johnston Executive Vice-President was elected President and Chief Executive Officer effective October 1, 1965.

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Our company stresses the quality of our products. We are just as proud of the quality of our employees and express our sincere thanks for their diligent efforts and cooperation during the past year.

Respectfully submitted for the Board of Directors,

J. E. Countryman,
Chairman.

L. H. Johnston,
President.

Hamilton, Ontario,
April 22, 1966.

CONSOLIDATED

February

ASSETS

	<u>1966</u>	<u>1965</u>
Current Assets		
Cash	\$ 6,166	\$ 18,934
Accounts receivable	5,089,712	4,865,950
Inventories of merchandise, materials and supplies valued at the lower of cost or market	22,107,129	19,754,546
Costs allocable to future operations	753,575	736,353
	<u>27,956,582</u>	<u>25,375,783</u>
 Fixed Assets		
Land, buildings, plant and equipment, based chiefly on appraised sound values as reported by Can- adian Appraisal Company, Limited, in 1923, plus subsequent additions at cost	31,515,382	30,086,041
Less — Accumulated depreciation	17,235,810	16,682,634
	<u>14,279,572</u>	<u>13,403,407</u>
 Intangibles		
Brand names, trade marks, patents, processes, goodwill, etc.	3,242,620	3,242,620
	<u>3,242,620</u>	<u>3,242,620</u>
 Approved on Behalf of the Board		
J. E. Countryman, Director		
L. H. Johnston, Director		
	<u>\$45,478,774</u>	<u>\$42,021,810</u>

BALANCE SHEET

1966

LIABILITIES

	1966	1965
Current Liabilities		
Bank and other advances	\$ 6,200,199	\$ 4,613,942
Accounts payable and accruals	3,959,002	3,410,700
Income taxes payable	922,318	1,096,158
Other taxes payable	59,853	53,391
Debenture payments due within one year	315,000	315,000
	<u>11,456,372</u>	<u>9,489,191</u>
Sinking Fund Debentures (exclusive of payments due within one year)		
3¾ % maturing January 15, 1970	2,025,000	2,200,000
5% maturing June 15, 1973	2,600,000	2,740,000
	<u>4,625,000</u>	<u>4,940,000</u>
Shareholders' Equity		
Capital Stock (Note 2)		
Class A Common Shares without nominal or par value		
Authorized — 1,000,000		
Issued — 468,137	2,098,842	2,098,842
Class B Common Shares without nominal or par value		
Authorized — 2,000,000		
Issued — 936,274	4,197,685	4,197,685
	<u>6,296,527</u>	<u>6,296,527</u>
Earnings Retained and Used in Business	23,100,875	21,296,092
	<u>29,397,402</u>	<u>27,592,619</u>
	<u>\$45,478,774</u>	<u>\$42,021,810</u>

CONSOLIDATED STATEMENT OF EARNINGS and Earnings Retained and Used in Business

for the year ended February 28, 1966

	<u>1966</u>	<u>1965</u>
Sales and operating revenues	\$50,568,113	\$47,954,196
Costs and Expenses		
Costs and expenses, excluding items listed below	45,396,514	43,391,646
Depreciation	1,093,431	988,058
Debenture interest	223,218	236,152
Directors' salaries and fees	99,064	101,700
	<u>46,812,227</u>	<u>44,717,556</u>
Earnings before income taxes	3,755,886	3,236,640
Provision for income taxes (Note 1)	1,600,000	1,125,000
Earnings for year	<u>2,155,886</u>	<u>2,111,640</u>
Earnings retained, beginning of year	21,296,092	19,535,555
	<u>23,451,978</u>	<u>21,647,195</u>
Dividends on Class A common shares	351,103	351,103
Earnings retained, end of year	<u>\$23,100,875</u>	<u>\$21,296,092</u>

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

for the year ended February 28, 1966

Source of Funds

Earnings for the year	\$ 2,155,886	
Depreciation — not requiring outlay of funds	1,093,431	
Disposal of fixed assets	127,691	\$ 3,377,008

Use of Funds

Investment in fixed assets	2,097,287	
Dividends on Class A shares	351,103	
Debentures redeemed	315,000	2,763,390

Increase in Working Capital

613,618

Arising as follows:

Increase in accounts receivable	223,762
Increase in inventories	2,352,583
Increase in costs allocable to future operations	17,222
	<u>2,593,567</u>

Less: Decrease in cash	\$ 12,768	
Increase in bank and other advances	1,586,257	
Increase in other current liabilities	380,924	1,979,949
	<u>\$ 613,618</u>	

Working Capital at beginning of year	<u>15,886,592</u>
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Working Capital at end of year	<u><u>\$16,500,210</u></u>
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NOTES TO FINANCIAL STATEMENTS

1.—The companies have followed the practice for a number of years of claiming for income tax purposes maximum capital cost allowances which are in excess of depreciation recorded in the accounts. For the year ended February 28, 1966, such claims have resulted in a reduction of \$360,000 in income taxes otherwise payable. The cumulative amount by which income taxes have thus been reduced is approximately \$2,572,000.

2.—The holders of Class A Common Shares are entitled to cumulative cash dividends at the rate of 75¢ per share per annum in priority to any dividends on the Class B Common Shares and dividends at the rate of 75¢ per share have been paid on the Class A Common Shares up to January 1, 1966. Subject to the prior rights of the Class A Common Shares, the holders of Class B Common Shares are entitled to cash dividends accumulating from the date of issue on October 1, 1956 at the rate of 75¢ per share per annum and the aggregate unpaid dividends on Class B Common Shares amount to \$6,495,000 at January 1, 1966. After the Class B Common Shares have received payment of all accumulated dividends, Class A and B Common Shares share equally in any dividends in excess of 75¢ per share per annum.

AUDITORS' REPORT

To the Shareholders of
Canadian Canners Limited:

We have examined the consolidated balance sheet of Canadian Canners Limited and its subsidiary companies as at February 28, 1966 and the consolidated statement of earnings and earnings retained and used in business for the year ended on that date. Our examination was made in conformity with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statement of earnings and earnings retained and used in business present fairly the financial position of the companies as at February 28, 1966 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Our examination also included the accompanying consolidated statement of source and use of funds for the year ended February 28, 1966 and, in our opinion, it presents fairly the changes in working capital for the year.

Hamilton, April 22, 1966.

Price Waterhouse & Co.,
Chartered Accountants.

Red Band Party



"Early spring and fall each year is the time for major in-store promotions for AYLMER and DEL MONTE brands. Colourful materials help to decorate and lend appeal to the canned goods on display. Always buy the company brands when shopping!"

DEL MONTE[®] ROUND-UP



